GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:7734
ANSWERED ON:17.05.2002
EARLY WARNING SYSTEM IN COOPERATIVE BANKS
AMBATI BRAHMANAIAH

Will the Minister of FINANCE be pleased to state:

(a) whether the RBI has superseded the Board of some cooperative urban banks in Maharashtra in 2001-2002;

(b) if SOI the names of all such urban cooperative banks whose Boards were superseded by RBI;

(c) the reasons for such supersession in each case;

(d) whether the RBi does not have any early-warning system in place to forestall such collapse of urban cooperative banks;

(e) if SOI the reasons for the non-operation of such early warning systems of the RBI in case of urban cooperative banks; and

(f) the corrective steps taken in this matter?

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI GIN GEE N. RAMACHANDRAN)

(a) & (b): Reserve Bank of lnilia (RBI) has reported that it does not have the power tosupersede the Board of Directors of Urban Co-operative Banks (UCBs) on its own. These powersare vested with the Registrar of Co-operative Sodeties of the respective States. Howeverl there is a provision in the Co-operative Societies Acts of the States to requisition theRegistrar to supersede the Board of Directorsl in the interests of the depositors to secure prope.r management. During the year 2001-20021 the Boards of 2 UCBs have been superseded in Maharashtra at the instance of RBIl viz. Rupee Co-operative B~ Pune and Western Co-ope. rative Bank Ltd` Mumbai by invoking the provisions contained in the Maharashtra Co-operative Societies Actl 1960.

(c): RBI has .reported that in both these case51 there have been many violations of RBI directions. In the case of Rupee Co-operative Bank Ltd`l there has been deterioration inthe quality of loan assets of the bank as the bank`s gross Non-Performing Assets (NPAs) formed 34.2% of total loans and advances outstanding. The financial statements of the bank did not depict true and fair picture and the bank had reso.rted to granting moratorium ranging 12 to 36 months to certain ineligible 1arge borrowal accounts to circumvent NP A norms. It violated RBI directives on interest rates on deposits and the top offidals of thebank waived interest to a few 1arge borrowers without mandate of the Board. The bank had eruolled certain Co-operative Credit Societies as its member in violation of Banking Regulation Actl 1949 and its own bye-law. The mismanagement of the affairs of the bank by its Board of Directors resulted in heavy erosion in value of assets which rendered it to be classified as `weak`. In the case of Western Cooperative Bank Ltd`l the bank had defaulted in maintenance of cash reserves and liquid assets on 52 and 6 occasions. The credit portfolio was not properly administered and the bank had violated RBI directives on credit exposure aswell as on unsecured advance to a single borrower. The Board of the bank did not pay due attention to important areas such as sanction of loans and advancesl income and expenditure account and was not regular in submitting statutory returns to RBI.

(d) & (e): RBI has repo.rted that there js a system of identification of weak banks based oncertain . financial parameters. Such banks are identified on the basis of statutory inspection and Annual Financial Reviews conducted by the regional Offices of the RBi with reference to the financial position of banks as on March 31 every year.

(f) RBI has initiated a series of policy measures to strengthen the regulatory/supervisory framework and also to improve the operational efficiency of UCBs. These include restrictingthe operations of cooperative banks in call money marketl revjsing the no.rms of investment in Government and other approved securities, restricting the investment of funds as deposit with other cooperative banksl restricting the issue of bankers` cheques by urban co-operative banksl introduction of a system of Off-site surveillance on scheduled urban banksl etc. .